dominion textile limited

annual report 1976

AR42

Stock Transfer and Dividend Disbursing Agent
The Royal Trust Company: principal offices in Montréal, Toronto and Vancouver

Stock Registrar
Montreal Trust Company: principal offices in Montréal, Toronto and Vancouver

Trustee: 5¾% Convertible Debentures, 1992
Montreal Trust Company: principal offices in Montréal, Toronto, Winnipeg, Calgary and Vancouver

Stock Exchange Listings
Montréal and Toronto

Annual Meeting
The annual meeting of shareholders will be held at 3:30 p.m. on Wednesday, October 20, 1976, at the head office of the Company, 1950 Sherbrooke Street West, Montréal.

Contents

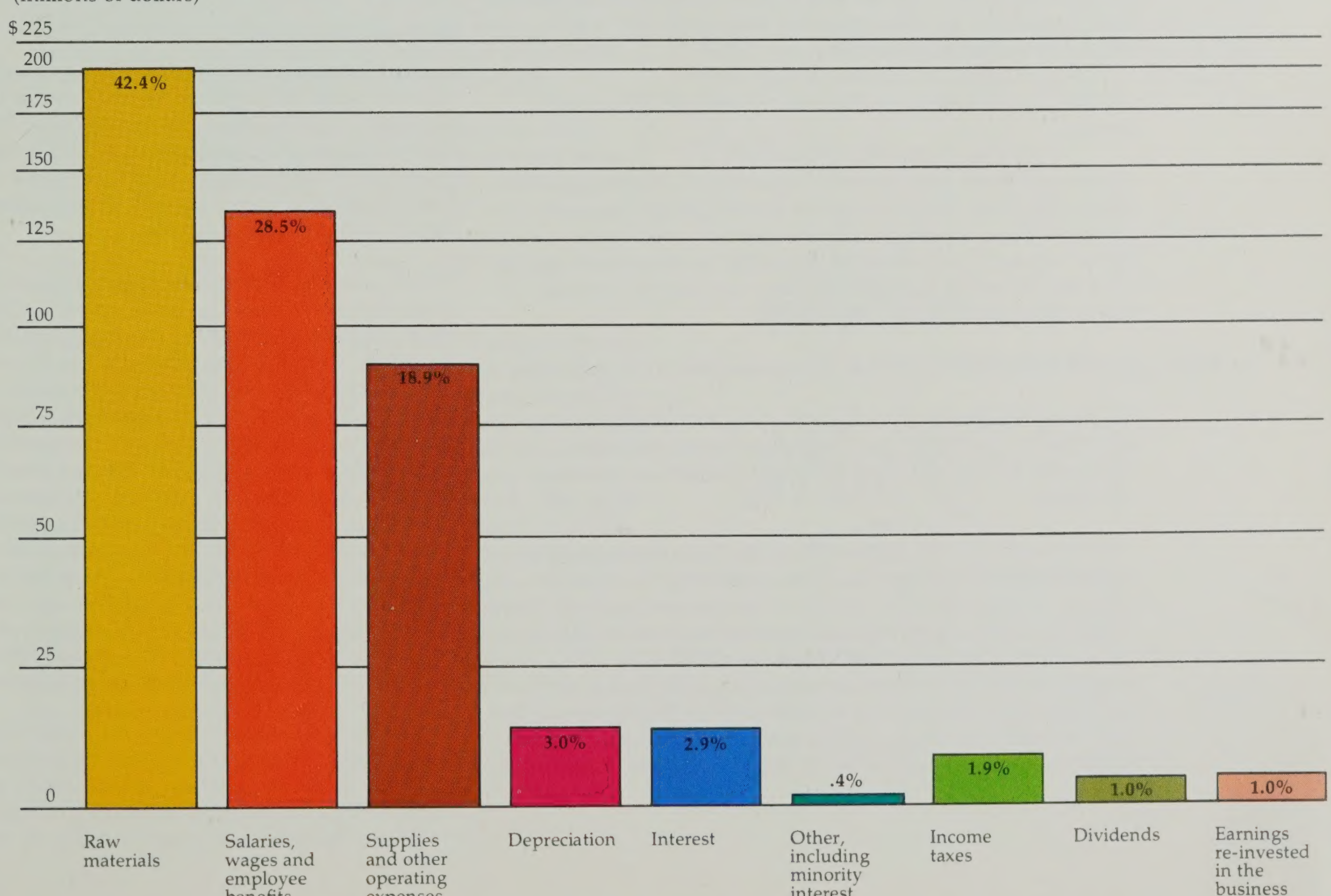
The Cover
The symbolic representation of the world's continents emphasizes the business span of the Company, now substantially augmented internationally since the 1975 acquisition of DHJ Industries Inc.

Si vous préférez recevoir ce rapport en français, veuillez vous adresser au Secrétaire, case postale 6250, Montréal, Québec H3C 3L1

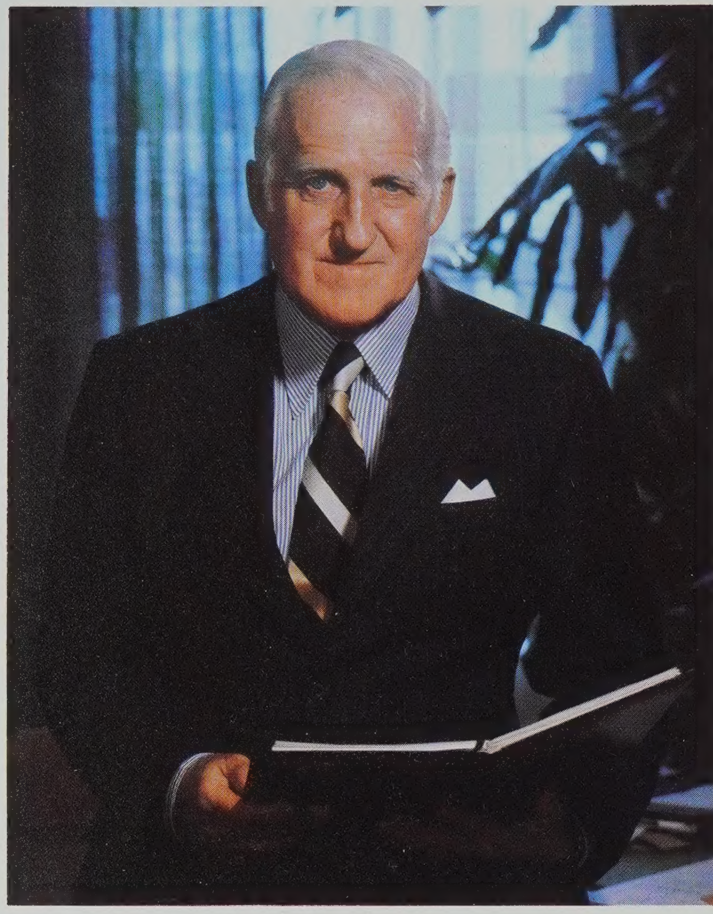
Highlights
(in thousands of dollars)

	1976	1975
Sales	**$475,420**	$273,355
Net income	**9,598**	7,118
Cash generated from operations	**$ 25,784**	$ 21,947
Capital expenditures	**18,702**	21,691
Working capital	**$106,145**	$105,649
Long term debt	**104,407**	109,656
Shareholders' equity	**115,513**	110,525
In dollars per convertible share:		
Net income	**$ 1.23**	$ 0.91
Cash generation	**3.30**	2.81
Dividends	**0.60**	0.60
Book value	**14.75**	14.13
Market price — High	**10**	11
— Low	**7 1/2**	6
Number of employees	**13,130**	10,100
Salaries, wages and employee benefits	**$135,300**	$ 87,000

Distribution of 1976 sales dollar
(millions of dollars)



Report to the Shareholders



Ronald H. Perowne

The year's results

In the year just completed Dominion Textile strengthened its position in both Canada and the United States and we are pleased to report improved earnings, a 15% increase in Canadian sales and a substantial increase in total sales now that the results of DHJ Industries Inc. are included in the consolidation.

At $475 million, sales for the year were the highest on record.

Earnings for the year were $1.23 per share which compares favourably with $0.91 per share for the preceding year. Nevertheless, we are acutely aware that, when one takes into account inflated dollars and the amount of equity investment in the Company, there is a need to increase earnings to more acceptable levels.

A dividend of 60 cents per share was paid during the year.

The consolidated financial position of the Company has improved. Accounts receivable were lower, while inventories have not climbed despite inflation and sales increases.

The improvement in the results of the Canadian operations was attributable to a gradual strengthening of demand during the year in most sectors of the marketplace. As the order position improved, most plants returned to full production which resulted in a more stable level of employment and better manufacturing efficiencies. In addition, the shutdown of several manufacturing operations referred to in previous reports started to have a beneficial effect on the Company's results in the last half of the year.

Excellent progress has been made in reorganizing DHJ Industries Inc. full ownership of which was acquired in October 1975. The many legal, financial and administrative aspects of the acquisition were successfully negotiated and completed. The organization now in place is well equipped to deal with the wide-ranging business opportunities in the U.S.A. and abroad and is steadily improving the profitability and liquidity of the company and its subsidiaries. DHJ made a positive contribution to our earnings in the last quarter.

A continuing weak spot in DHJ is the double knit business which is plagued with an uncertain market and low prices. The losses incurred during the year, although significant, were reduced by closing the plant at Monroe, Louisiana. Further action is being taken to improve the situation.

The denim and interlining operations in the U.S.A. were strong and profitable throughout the year. To enhance our leadership position in the interlining business, funds are being committed to establish a finishing facility in the vacated knitting plant at Monroe.

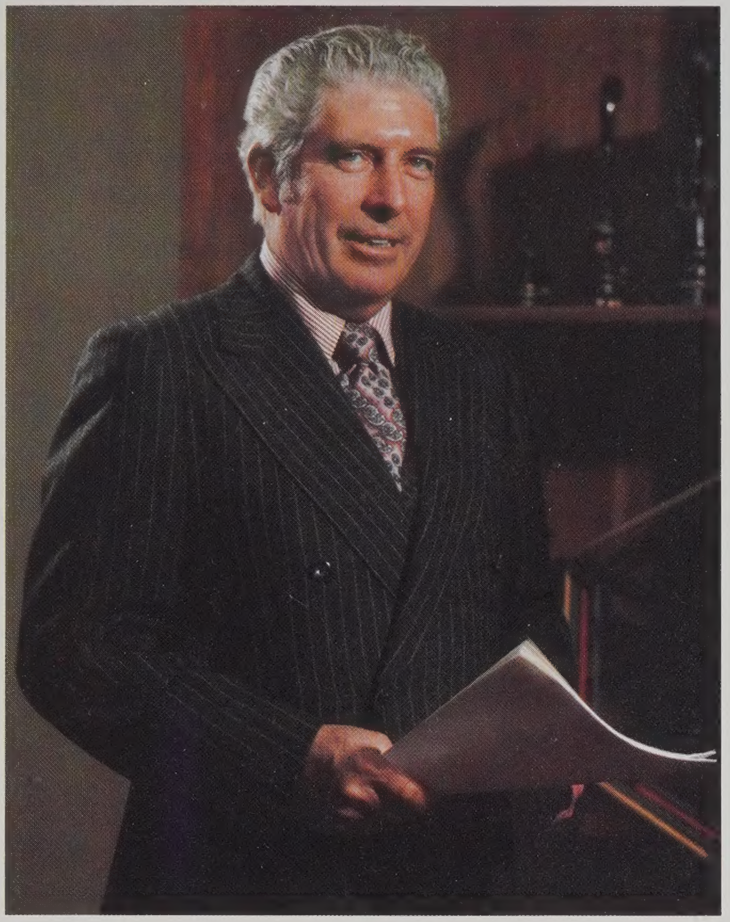
Now that the Company, through DHJ, has a substantial investment in foreign subsidiaries and affiliates, consolidated results are affected by fluctuations in the value of foreign currencies relative to the Canadian dollar. In the year under review, both the appreciation of the Canadian dollar and the devaluation of several major foreign currencies had their effect. As a result of the conversion at year-end of the value of foreign assets and liabilities, there was an unrealized reduction in consolidated earnings of $2.7 million or 35 cents per share. A significant part of this adjustment, namely $1.3 million, reflected the appreciation of the Canadian dollar in relation to the U.S. dollar.

Government policies

As the Company commences this new fiscal year, it does so in the same atmosphere of uncertainty that clouds the total Canadian business community. There is today a rising degree of apprehension as to the role manufacturing industries are expected to play in Canada. This apprehension is shared equally by the primary and apparel sectors of the textile industry.

Textile and apparel manufacturers, the unions representing their employees, and the governments of the provinces where textiles and clothing are manufactured, are gravely concerned over the large share of the domestic market taken over by imports. We are particularly alarmed at the rapidly increasing volume of garments shipped into Canada from low-cost countries and state-controlled suppliers. The resulting loss of employment to Canadians, and therefore of purchasing power in the economy, is staggering. A substantial and healthy apparel industry is vital to Dominion Textile, to all the domestic primary textile industry and to Canada. These facts have been made clear to Ottawa in both public and private hearings. Ottawa is also well aware of the number of textile plants that have closed in recent years and of others which today are in extremely difficult financial condition.

In May 1970, the Government formulated a Canadian Textile Policy, clearly stating that its purpose was to provide a sense of direction, a framework and conditions within which the textile and clothing industries could plan, invest and develop with a greater degree of confidence.



Thomas R. Bell

Dominion Textile, encouraged by these pronouncements, continued its already aggressive program of modernizing and rationalizing its facilities. Regrettably, the Policy has not been implemented as had been previously indicated and intended. Consequently, in calendar 1976 the Company faces import pressures, at the fabric and particularly at the garment level, which are even more acute than when the Policy was announced.

In recent weeks Federal authorities have given some indication that they understand the fundamental issues faced by the textile industry. Our industry has suggested a solution and the course and direction of the Company's major capital investments will be influenced to a large extent by the actions of the Federal authorities in the next few months.

A second aspect of Government policy of major concern is the Anti-Inflation Board's regulations for control of profits. Faced, as we are, with severe import competition and recognizing that textiles have historically earned a lower rate of return than the average for Canadian manufacturing industries, it is imperative that the Company continue to invest capital to achieve productivity gains. The profit controls program as it now stands limits profit to levels even lower than the comparatively low levels earned earlier, and effectively confiscates productivity gains, thereby discouraging or preventing capital investment. The Company has made representations to Ottawa in this respect and, if the regulations are not changed, the balance will be tipped even further in favour of investment outside Canada.

Outlook

At this time the orders on hand position is higher than it was a year ago. Inventories are lower and the level of plant activity has improved considerably over last year when we were just starting to extricate ourselves from the world textile depression. It is imperative that the Company's plants operate at full activity and that inventories be kept under rigid control. To accomplish this, of course, necessitates a higher volume of sales and this we expect to achieve provided the textile market in the U.S.A. remains firm and provided meaningful action is taken by Ottawa to stop further erosion of our Canadian market.

Dominion Textile will have a difficult time maintaining profitable export sales to the United Kingdom because of the devaluation of the pound. This is an important market for us and, undoubtedly, looms now on production for the U.K. will have to be diverted to fabrics required by our DHJ International Division.

Costs associated with the closing down of several operations in Canada and the United States are all behind us and, hopefully, we will not have similar expenses to contend with in this new fiscal year.

Our major labour agreements come up for renewal in February and April 1977 and we expect that these contracts will be settled promptly and realistically.

In short, we expect another year that will test the management of the Company and its employees to the full. The Company has a fine workforce and an enthusiastic management and we are confident they will combine to maintain a leading position for Dominion Textile in the textile industry around the globe.

The Directors are grateful to the employees, many of whom are shareholders, for their contribution to the achievements of the Company during the past year. Our thanks and appreciation also go to our valued customers and suppliers.

Submitted on behalf of the Board

M.A. Jerome.

Chairman of the Board and Chief Executive Officer

T.R. Bell

President and Chief Operating Officer

Montréal, Québec
August 4, 1976

The Year in Review

CANADIAN OPERATIONS

The Canadian divisions all recorded sales gains in 1975-76 as the world textile climate improved following the severe recession of 1974. As demand picked up inventories were reduced and most plants returned to virtually full operation, resulting in improved earnings and a better return on investment.

As our order books increased, prices advanced, but not sufficiently to recoup all of the material, labour and energy cost increases incurred during the year. Competition from imports intensified particularly in the garment sector and the situation has not eased since the year-end.

The dominant factor in the improvement in operating results was the greater use made of our manufacturing plants. Production levels were gradually stepped up at all plants to the point where five-day, three-shift schedules were in effect during the last six months. Overhead costs were spread over a larger number of production units and manufacturing efficiency picked up as plants resumed normal, stable work schedules.

Cotton prices had another dramatic upward turn, recently approaching the high point of 1973 when world-wide prices previously peaked. Recent activity in cotton trading has been highly volatile. We expect erratic fluctuations will continue in the current year with prices likely to reach higher levels than in fiscal 1976.

Export sales increased again after losing ground in the preceding year when textile markets were depressed internationally. Prices, however, were under severe pressure because of the high premium on the Canadian dollar and the depreciation of other currencies.

In last year's annual report the decision to close some of our Canadian plants was announced. In addition, the Lana Knit double knitting plant in Montréal was closed during the year. All of the shutdown expenses associated with these plant closures were absorbed in fiscal 1976 and the full benefit of overhead reductions and eliminated losses will be realized in the current year.

Apparel and Consumer Products Division

The Division, the Company's largest, made a comeback in 1976 from the poor performance of the previous year. Sales increased, although the yardage sold was below the levels attained in the early 1970's.

The decision to integrate Fireside Fabrics corduroy into this Division proved to be most beneficial, improving the quality of the product and service to the trade. Corduroy enjoyed excellent markets throughout the year.

Sales of TEXMADE and CALDWELL sheets, pillow slips and towels reached record levels. Competition from the United States, where there is some over-capacity, maintains continual pressure on volume and prices, but sales of our well-known brand name products have grown steadily over several years attesting to the Company's styling and reliability of quality and service.

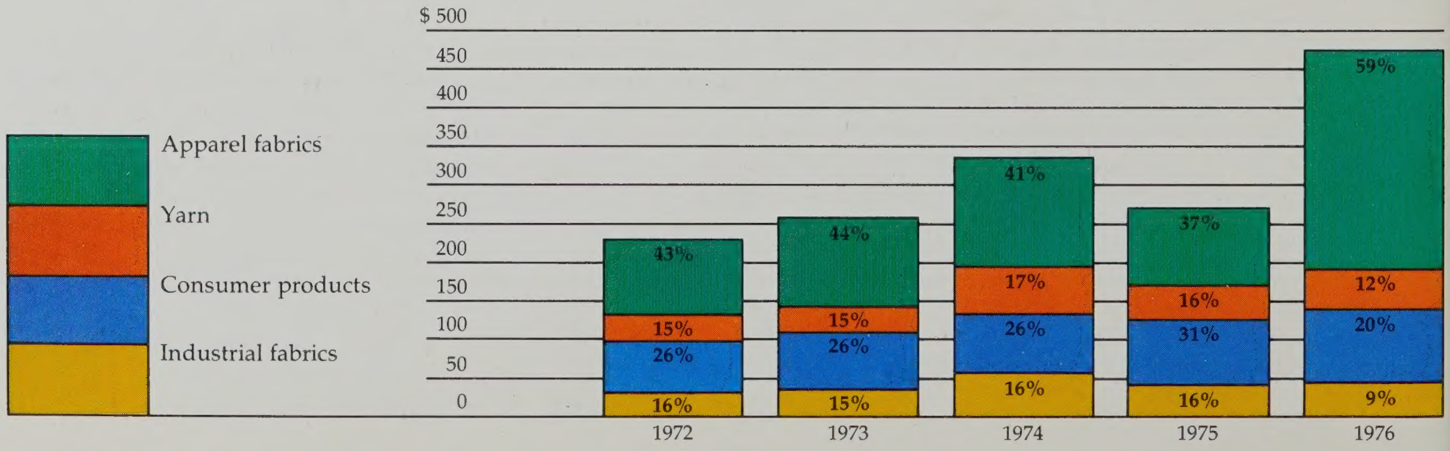
In last year's annual report, reference was made to a number of major capital spending projects which were nearing completion in the Division's plants, namely, conversion to wider weaving equipment at the Magog Fabrics plant, installation of ultra-modern open-end spinning equipment at the Richelieu Fabrics plant, installation of Sulzer shuttleless weaving machines at the Sherbrooke Sheeting plant, and the addition of a second screen-printing unit for consumer products in Magog Print Works. All of these projects were completed and the equipment in each case is running efficiently.

To improve the quality and efficiency of production we will spend \$3.5 million in our Caldwell plant for the replacement of old looms with new Dobby and Jacquard terry looms. We will spend \$1.1 million in the Sherbrooke Sheeting plant to improve the working environment for our employees.

Yarn and Industrial Division

Industrial fabric markets were severely affected by the economic slump of a year ago and although some improvement was recorded during the year under review, sales were disappointing. While unit shipments for automotive trade end-use increased, they were in a changed product mix of lighter weight goods at lower values.

Sales by major product classification
(millions of dollars)



Between aggressive marketing programs at home and abroad we have maintained our position in tire cord fabrics. There are major changes occurring in this market as the rubber industry adjusts itself to the trend to longer mileage radial tires, restricted highway speeds and lighter vehicles. Short term outlook has been aggravated by the long strike in the U.S. rubber industry.

The Company's V-belt cord-treating unit at Drummondville for use in the manufacture of raw edge V-belts is operating at capacity. This technology uniquely equips the Division to satisfy a highly-specialized market, and the outlook is very encouraging.

We are also optimistic about the potential for growth in the market for conveyor belting, and we see an increasing demand for belt duck from the expanding extraction industries in this country.

Strong demand for sales yarn was evident throughout the year and consequently prices recovered from the depressed levels of one year ago. Cotton remains the dominant fibre but man-made blends have made further gains in the past year. Our Long Sault Yarn plant was converted from an all-cotton facility to a unit now running significant volume of polyester/cotton, a trend we expect to continue in the future. Should cotton remain at prices appreciably above polyester, we will move aggressively to use more blends with man-made fibres to avail ourselves of the cost advantages and operating efficiencies that such blended yarns offer.

Following the cessation of manufacturing in the Mount Royal weaving plant, it was converted into a central warehouse and distribution centre. The conversion was completed at the end of the fiscal year. This well-equipped warehouse will reduce overhead costs and provide better customer service.

Canadian Subsidiaries

A reorganization and streamlining of Penmans' facilities was undertaken and is nearing completion. Penmans produces a broad line of knit sportswear and underwear. All fabric production has now been centralized at the plant in Paris, Ontario, while the cutting and sewing operations are located at the Brantford and St. Hyacinthe plants. PENMANS products are continuing to regain the position they lost in the marketplace during the eleven-month strike of 1974-75.

The Esmond Division holds a very favourable position in blankets, bedspreads and draperies for the Canadian market, both in wovens and in non-wovens. The installation of 40 Sulzer shuttleless weaving machines was completed during the year at a cost of $1.9 million. This machinery upgrading and replacement is improving the quality, cost and flexibility of the woven products.

Hubbard Dyers in Montréal, Canada's largest commission dyer of fabrics and yarns, showed good progress and undertook a program to further diversify its services. This program is attracting commission business in wovens and knits to replace the products of Lana Knit previously processed at Hubbard.

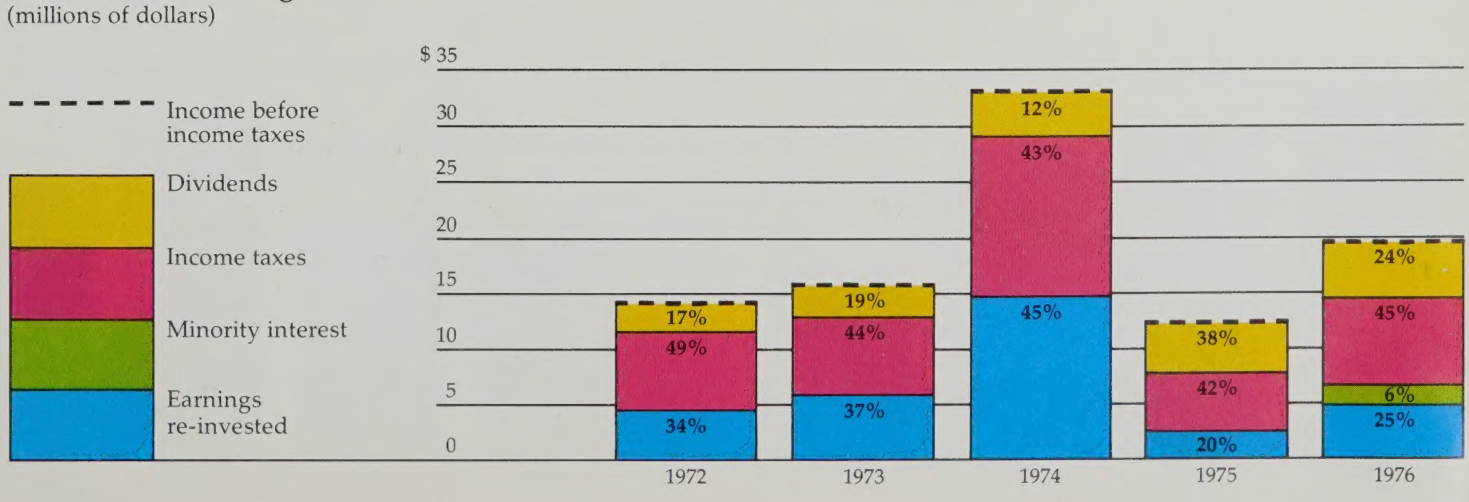
The Fiberworld Division has established a good position as an important supplier of polypropylene carpet backing to the Canadian carpet industry. A non-woven production line has been added and the recovery in the carpet industry now in progress should contribute positively to Fiberworld's results next year.

Jaro Manufacturing showed improved results in its non-woven fabrics operations. Two new installations of non-woven production lines were placed in operation, enabling the company to provide a much broader variety of non-woven products to the industrial and apparel markets.

DHJ INDUSTRIES INC.

Fiscal 1976 was a year of significant change and substantial progress for DHJ Industries. Immediately following Dominion Textile's purchase of the company in May 1975, steps were taken to restructure DHJ's organization and

Distribution of earnings
(millions of dollars)



to realign and consolidate its operations. A number of product lines were discontinued resulting in a concentration on three basic products: interlinings, indigo-dyed denim and double knit fabrics.

Particular emphasis was placed on expanding and strengthening DHJ's leadership in the field of interlinings and related products, both in the United States and throughout the world, and in maintaining Swift Textiles' strong position in the indigo-dyed denim market.

Aided by an improving economy in the United States and a generally better tone in international markets, DHJ achieved a marked improvement in its operating results for 1976 in comparison with the previous year. Gains were recorded in all areas and operating costs were sharply reduced, although the double knit division continued to operate at a loss. The total financial results show a loss of U.S. $241,000 for the year against a loss of nearly $25 million in fiscal 1975.

Consolidated sales totalled $161 million — a decline from $180 million a year ago — reflecting the discontinued operations. Sales of the affiliated companies, mainly interlinings, which are not included in the consolidated sales figure, amounted to a further $57 million.

The outlook for fiscal 1977 remains favourable. A number of positive new programs are being carried out and further developments are under way which are expected to result in the attainment of a profitable level of operations.

Interlinings

The Interlining Division turned in an excellent performance during the year with sales the second highest on record. In addition, through stringent measures to cut overhead expenses, control inventories and utilize facilities and personnel more effectively, operating costs were reduced while service to customers was improved.

The sales force has been strengthened in all areas and a strong team of well-qualified technicians has been organized with responsibility for new product development, quality assurance and customer service. A number of new products were introduced during the year in both the woven and non-woven fields and product development will receive continuing high priority.

Latterly, DHJ has relied almost exclusively on outside commission finishing of its interlining fabrics. With the expansion of business and the increasingly critical requirements of customers for uniform quality, flexibility and faster deliveries, it became evident that it was no longer practicable to rely entirely on outside sources for these services. A plan has been approved to establish a finishing facility to handle a substantial portion of DHJ's requirements in the former knit plant at Monroe, Louisiana. The plant is expected to be in operation by June 1977.

Plans were also approved for relocating the cut lining plant at Long Island City to premises formerly occupied by the Knit Goods Division in East Setauket, Long Island. The move will reduce manufacturing costs considerably and improve service to customers in the Greater New York area. This move has been completed since the end of the fiscal year.

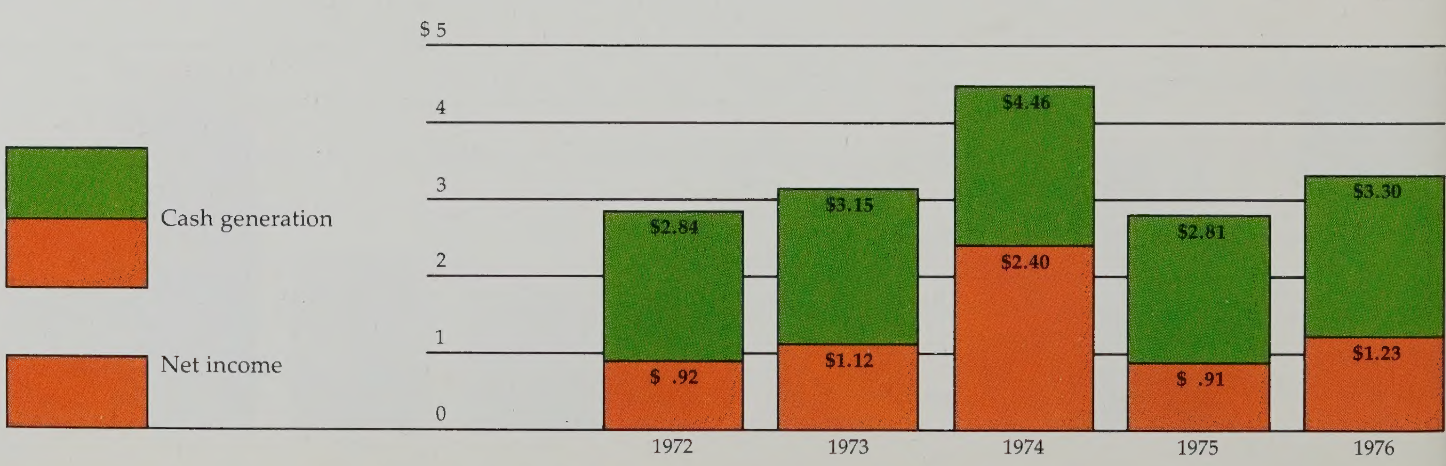
Denim

Swift Textiles operated at capacity throughout the year, producing indigo-dyed denim, primarily heavy-weight, for the jeans trade. Swift's outstanding performance contributed significantly to the improvement in the overall financial results. Existing strong demand for the product is expected to continue.

Although denim traditionally has been all cotton, Swift pioneered the introduction of a new high-performance polyester/cotton blended product, FADEMS, which is superior from a shrinkage, seam smoothness and ease-of-care point of view. This concept is now an established and growing part of the denim market.

During the year Swift continued to update its equipment by the installation of additional shuttleless looms and open-end spinning machines. This technologically advanced machinery is faster and more economical than

Net income and cash generation per share



conventional looms and spinning frames and it produces fabric of superior quality with excellent performance. The program will be completed during the current year.

Knits

The Knit Goods Division operated in a market characterized by over-production and aggravated by extreme fluctuations in the price of the basic raw material, polyester filament yarn. Selling prices and the volume of business were erratic and there appears to be little sign of improvement in this situation at the present time.

The plant in Monroe, Louisiana, was closed in the early fall of 1975 and the reduced manufacturing operations were consolidated at Hickory, North Carolina. This resulted in substantial cost savings and freed the Monroe facility for other use.

The Division's posture is being re-evaluated on a continuing basis in order to meet conditions in this volatile and competitive market and to minimize DHJ's exposure to loss.

International

During fiscal 1976 a major effort was directed towards strengthening the effectiveness and profitability of the overseas operations which are mainly involved in the production and sale of interlining fabrics and die-cut linings. Overhead costs and inventories have been reduced in most areas and other programs and organization changes have been introduced to improve efficiency.

Political and economic conditions have placed a burden on certain of the overseas operations. Appropriate corrective measures have already been implemented which are expected to provide some relief during the current year. Alternative sources of fabrics and commission finishing services, including those of Dominion Textile, are being introduced in some areas and additional bank lines of credit in local currencies have been obtained to provide for the expansion of sales and to minimize to the extent possible the exposure to loss due to foreign currency fluctuations. Other developments are under way to strengthen our position in countries where DHJ is represented and a number of new areas for possible licensing or joint ventures are presently under investigation.

During the year an agreement was signed with an agency of the Tunisian government relating to the manufacture and sale of indigo-dyed denim. Under the agreement DHJ participates in the exclusive European distribution of denim produced at a mill in Tunisia and has an option to purchase an interest in the Tunisian manufacturing facilities once they are in full operation. The Dominion Textile-DHJ-Swift group provides technical assistance and has furnished certain equipment which has already been placed in production. The facility is expected to be in full operation later this year.

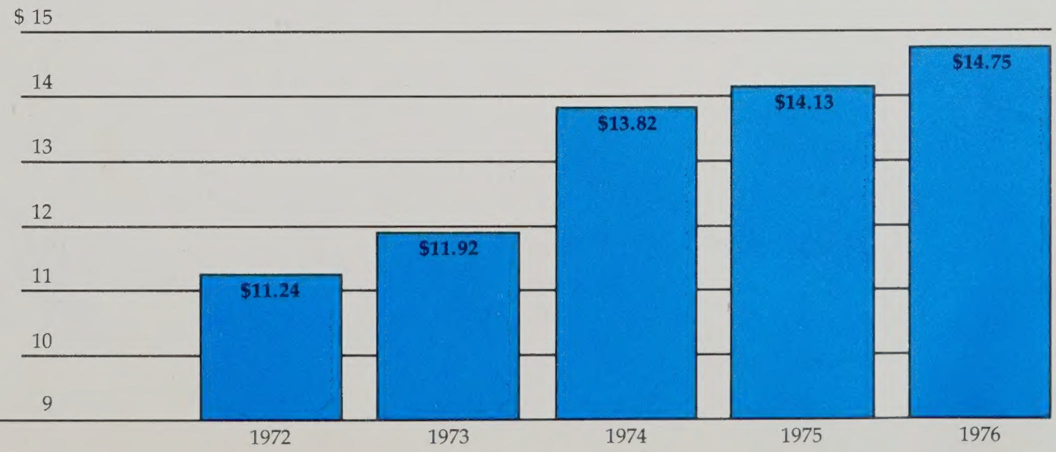
ORGANIZATION

A number of senior appointments were made during the course of the year.

Thomas R. Bell, President of Dominion Textile, was appointed Chairman of the Board of DHJ Industries Inc., retaining the title of Chief Executive Officer. Charles A. McCrae succeeded Mr. Bell as President of DHJ.

At Dominion Textile, senior appointments were those of Ilay C. Ferrier as Vice-President — Finance, and George H. Hughes to the newly-created post of Vice-President — Non-Wovens, with overall responsibility for the operations of the Esmond and Fiberworld Divisions, as well as Jaro Manufacturing.

Book value per share



Dominion Textile Limited
and Subsidiary Companies

Consolidated Balance Sheet
as at June 30

	1976	1975
	(in thousands of dollars)	
Current assets		
Cash	**$ 7,335**	$ 6,712
Accounts receivable	**78,569**	83,545
Inventories (Note 2)	**136,727**	136,638
Prepaid expenses	**2,506**	2,924
	225,137	229,819
Deduct:		
Current liabilities		
Short term borrowings (Note 3)	**56,070**	78,367
Accounts payable and accrued liabilities (Note 4)	**46,251**	34,831
Dividends payable	**1,170**	1,170
Income and other taxes	**6,472**	4,625
Long term debt due within one year	**9,029**	5,177
	118,992	124,170
Working capital	**106,145**	105,649
Investments and advances (Note 5)	**11,249**	10,597
Land, buildings and equipment (Note 6)	**111,254**	108,498
Unamortized debenture discount and expense	**341**	373
Other assets	**1,469**	2,744
Funds invested	**$230,458**	$227,861
Financed by:		
Long term debt (Note 7)	**$104,407**	$109,656
Minority shareholders' interest in subsidiary companies	**2,866**	1,993
Deferred income taxes	**7,672**	5,687
Shareholders' equity		
Capital stock (Note 10)	**20,870**	20,774
Retained earnings	**94,643**	89,751
	115,513	110,525
	$230,458	$227,861

On behalf of the Board:

Director

Director

Dominion Textile Limited
and Subsidiary Companies

Consolidated Statement of Income

for the year ended June 30

	1976	1975
	(in thousands of dollars)	
Sales	**$475,420**	$273,355
Costs and expenses		
Operating costs	**427,140**	241,152
Depreciation	**14,201**	12,054
Interest		
Long term debt	**6,046**	3,159
Other	**7,842**	5,104
	455,229	261,469
	20,191	11,886
Share in earnings of associated companies	**863**	—
Income from operations	**21,054**	11,886
Other expenses and (income) (Note 11)	**1,452**	(388)
Income before income taxes	**19,602**	12,274
Income taxes	**8,841**	5,156
Income before minority interest	**10,761**	7,118
Minority interest	**1,163**	—
Net income for the year	**$ 9,598**	$ 7,118
Per share, after preferred dividends (Note 13)	**$ 1.23**	$ 0.91

Consolidated Statement of Retained Earnings

for the year ended June 30

	1976	1975	1976	1975
			(in thousands of dollars)	
Retained earnings at beginning of year			**$ 89,751**	$ 87,348
Net income for the year			**9,598**	7,118
			99,349	94,466
Deduct:				
Dividends —				
7% Preferred			**25**	36
Convertible and common			**4,681**	4,679
per common share	**$ —**	$0.30		
Class A share	**0.60**	0.30		
Class B share	**0.51**	0.255		
Tax on Class B share	**0.09**	0.045		
			4,706	4,715
Retained earnings at end of year			**$ 94,643**	$ 89,751

Consolidated Statement of Changes in Financial Position

for the year ended June 30

	1976	1975
	(in thousands of dollars)	
Source of funds		
Net income for the year	**$ 9,598**	$ 7,118
Depreciation	**14,201**	12,054
Deferred income taxes	**1,985**	2,775
Cash generated from operations	**25,784**	21,947
Increase in long term debt	**8,436**	10,387
Working capital of acquired subsidiary	—	25,689
Minority interest's share of earnings in a subsidiary	**1,163**	—
Proceeds on sale of fixed assets	**1,895**	368
Realization of tax benefit	**670**	—
Other items — net	**560**	106
	$ 38,508	$58,497
Use of funds		
Repayment of long term debt	**$ 13,685**	$ 1,321
Additions to fixed assets	**18,702**	21,691
Investment in subsidiary and associated companies	**919**	9,205
Dividends	**4,706**	4,715
	$ 38,012	$ 36,932
Increase in working capital	**$ 496**	$ 21,565

Auditors' Report

The Shareholders,
Dominion Textile Limited.

We have examined the consolidated balance sheet of Dominion Textile Limited and its subsidiaries as at June 30, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at June 30, 1976 and the results of their operations and the changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.

Montréal, Québec
July 30, 1976.

Chartered Accountants.

Notes to Consolidated Financial Statements

June 30, 1976

Note 1 — Accounting policies

The following summary of major accounting policies is presented to facilitate the interpretation of the financial statements.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements are prepared in accordance with generally accepted accounting principles and include the accounts of all subsidiary companies, with provision for the interest of minority shareholders.

The acquisitions of all subsidiary companies are accounted for on a purchase basis and for subsidiary companies acquired prior to June 30, 1974 the net excess of the cost of the Company's investment over the aggregate net assets acquired has been written-off against retained earnings.

The Company acquired 94.9% of the shares of DHJ Industries Inc. in May 1975 and the remaining outstanding shares during the year ended June 30, 1976. As the fiscal year end of DHJ Industries Inc. is May 31, its assets and liabilities as at that date (adjusted to appropriate carrying values as at date of acquisition) have been consolidated with those of the Company as at June 30, 1976 and 1975.

As at May 31, 1976 DHJ Industries Inc. has a balance of unrealized future tax benefit of approximately $7,500,000 arising from loss carry-forwards incurred prior to acquisition being available to reduce future income taxes otherwise payable. It is the intention of the Company to apply this credit when realized, to the extent necessary, to offset the adjustment to carrying values of DHJ Industries Inc. as at the date of acquisition. For the year ended May 31, 1976 the tax benefit of $670,000 has been so applied.

The consolidated statement of income for the year ended June 30, 1975 does not include the operations of DHJ Industries Inc.

On consolidation all significant inter-company items are eliminated.

FOREIGN EXCHANGE

Current assets and liabilities in foreign currencies are converted at the exchange rates prevailing at the balance sheet dates. Fixed assets and long term liabilities are converted at rates prevailing at the dates of acquisition. Income and expenses in foreign currencies are converted at the actual exchange rates prevailing at the dates of transactions or at average exchange rates for the year.

CONSISTENCY

The accounting principles are consistently followed from year to year except for occasional changes to reflect improved accounting practices, in which case the effect of any material change is duly indicated.

INVENTORY VALUATION

Materials and supplies in inventories are valued at the lower of average cost and net realizable value. The cost of work in process and finished goods inventories includes raw materials, direct labour and certain manufacturing overhead expenses. Adequate provision is made for slow-moving and obsolete inventories.

MARKETABLE SECURITIES

Marketable securities are valued at average cost and when they are sold, the resulting gain or loss is included in net income.

INVESTMENTS IN ASSOCIATED COMPANIES

The investment in associated companies is carried at the Company's equity therein and the Company's share of the net income or loss of such companies is recorded in the period in which it is incurred.

FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at historical cost. Depreciation is provided on a straight-line basis at rates which amortize the cost of the assets over their economic life.

When fixed assets are sold or scrapped, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss on disposal is included in net income.

INCOME TAXES

The Company follows the tax allocation method of providing for income taxes. Under this method the amount of income taxes payable for the year may differ from the total income tax provisions as a result of timing differences between the recognition of expense for accounting and income tax purposes. The tax effect of these differences is reflected in the accounts as deferred income taxes.

PENSIONS

The Company provides pensions for its employees. The hourly-paid employees are covered by non-contributory plans. There are a number of pension plans for salaried employees of the Company and its subsidiaries both of a contributory and non-contributory nature. All pension plans are trusteed and are being funded. The current service cost portion of these plans is absorbed in the period in which the service that gives rise to the entitlement is rendered. The present value of the unfunded past service pension liability is estimated to be $5,370,000 at June 30, 1976, and is to be amortized on a systematic basis.

Pension payments made to retired employees who are not covered by these plans are charged to operations when paid.

Note 2 — Inventories

	1976	1975
	(in thousands of dollars)	
The main inventory classifications are as follows:		
Raw materials	**$ 33,535**	$ 36,905
Work in process, including greys in bales for further processing	**48,685**	46,784
Finished goods	**46,560**	45,862
Supplies	**7,947**	7,087
	$136,727	$136,638

Note 3 — Short term borrowings

Bank borrowings of $7,242,000 by subsidiary companies are secured by assignment of inventories and accounts receivable.

Note 4 — Accounts payable and accrued liabilities

Since the date of acquisition of 100% of the shares of DHJ Industries Inc., the Company has been assessing the underlying value of the assets acquired and the various operations of DHJ and its subsidiary companies, both in the United States and other foreign countries. As a result of this assessment, (a) a provision of $4,000,000 has been established and included as an accrued liability to provide for costs related to future rental payments under unfavourable leases, future rental payments on idle equipment and costs associated with the re-alignment of DHJ's operations, and (b) an upward adjustment of $7,800,000 has been made to the appropriate carrying value of the assets acquired. The comparative balance sheet as at June 30, 1975, has been restated to reflect these adjustments.

For the year ended June 30, 1976, an amount of $800,000 net of income taxes was charged to the provision.

Note 5 — Investments and advances

	1976	1975
	(in thousands of dollars)	
Marketable securities — at average cost (market value 1976 — $4,451,825; 1975 — $4,405,000)	**$ 4,221**	$ 4,417
Investment in associated companies valued at equity	**6,074**	5,452
Other investments and advances — at cost	**954**	728
	$ 11,249	$ 10,597

Note 6 — Land, buildings and equipment — at cost

	1976	1975
	(in thousands of dollars)	
Land and buildings	**$ 89,262**	$ 84,466
Machinery and equipment	**215,432**	209,986
	304,694	294,452
Less: Accumulated depreciation	**193,440**	185,954
	$111,254	$108,498

Note 7 — Long term debt

	1976	1975
	(in thousands of dollars)	
Dominion Textile Limited		
Secured		
5 5/8% Sinking Fund Debentures, Series A due March 31, 1988		
Authorized and issued		
$32,000,000 less purchased for retirement Sinking Fund payments of $960,000 are due March 31 in each of the years 1977 to 1987. (The Company has purchased $2,483,000 principal amount of debentures in anticipation of these payments.)	**$ 22,797**	$ 23,722
6 3/4% Sinking Fund Debentures, Series B due April 15, 1990		
Authorized and issued		
$12,500,000 less purchased for retirement Sinking Fund payments of $375,000 are due April 15 in each of the years 1977 to 1989. (The Company has purchased $1,073,000 principal amount of debentures in anticipation of these payments.)	**9,552**	9,927
Term note due 1979 to 1983 (US $3,245,000) Interest at 7% Secured by Series C Collateral Debenture	**3,296**	—
Term note payable 1977 to 1980 Interest at 3/4% above prime Secured by Series C Collateral Debenture	**3,245**	531
Other mortgages and secured loans	**2,397**	2,386
The debentures are secured by a floating charge on all the assets (except real and immovable properties) of the Company and certain subsidiaries.		
Unsecured		
5 3/4% Convertible Debentures due October 12, 1992		
Authorized and issued		
$15,000,000 less conversions to date	**14,764**	14,876
Seven year term note, due 1977 to 1982, at interest rates which fluctuate with changes in the New York prime rate or the London Inter-Bank rate at the Company's option. The interest rate in effect at June 30, 1976 was 6 5/8% (US $10,000,000)	**10,298**	10,298
9 1/2% term note, due 1977 to 1984	**2,400**	2,500
	68,749	64,240
Deduct: Amounts due within one year — included in current liabilities	**1,441**	331
	67,308	63,909
DHJ Industries Inc.		
Subject to agreements with creditors (see below)		
Term notes payable to banks and insurance companies No repayment of principal for two years ending May 1978. Interest payable at 2% per annum. Secured by a second charge on the shares of certain subsidiaries	**19,025**	19,025
Trade creditors Payable in instalments over two and one-half years ending November 1978, without interest	**6,745**	12,503
5% term note due 1977 to 1978	**522**	586
Term notes payable 1977 to 1979 Interest at rates which fluctuate with the prime rate	**1,560**	1,603
Term note payable 1976 Interest at 2% above prime rate	—	1,494
Term note payable February 1977 Interest at 2% above prime rate	**2,935**	3,085
Term note payable November 1978 Interest at 3% above prime rate Secured by a first charge on the shares of certain subsidiaries	**2,057**	2,059
Term note payable 1977 to 1979 Interest at 2% above prime rate	**4,455**	4,499
Other long term liabilities	**7,388**	5,739
	44,687	50,593
Deduct: Amounts due within one year — included in current liabilities	**7,588**	4,846
	37,099	45,747
Total long term debt	**$104,407**	$109,656

DHJ Industries Inc. entered into certain agreements with its creditors which extended the terms of payment on a substantial portion of its outstanding indebtedness. The provisions of these agreements impose certain restrictions on DHJ Industries Inc. and require that it:

1) maintain working capital and net worth above certain minimum levels
2) maintain the ratio of debt to net worth within prescribed limits, and
3) limit operating losses (defined to exclude most non-cash charges) which may be incurred by the operations of DHJ Industries Inc. and certain subsidiaries in the United States.

Dominion Textile Limited has the option of making additional convertible subordinated loans to DHJ Industries Inc. if necessary to maintain these requirements.

Note 8 — Leases

The total obligation for building and equipment leases which expire at various dates from 1977 to 1998 is $40,000,000. The maximum annual rental commitment in any one year is $4,100,000.

Note 9 — Contingencies

Notes receivable discounted by foreign subsidiaries amount to approximately $1,800,000. A foreign subsidiary has guaranteed obligations of certain affiliates to a maximum of $500,000.

Note 10 — Capital stock

			1976	1975
			(in thousands of dollars)	
7% Cumulative Preference				
Authorized — 4,306 shares $100 par value				
Outstanding — 3,546 shares (1975 — 3,712 shares)			$ **355**	$ 371
Convertible — no par value				
Authorized — 22,500,000 Class A shares				
22,500,000 Class B shares				
	1976	1975		
Issued — Class A shares	**7,466,011**	7,521,376		
Class B shares	**342,551**	277,106		
	7,808,562	7,798,482	**20,515**	20,403
			$ 20,870	$ 20,774

(a) The Class A and Class B shares are voting, convertible into one another on a share for share basis and rank equally in all respects with the exception of the payment of dividends. The dividends on the Class B shares are paid out of "tax paid undistributed surplus on hand" or "1971 capital surplus on hand" as defined in the Income Tax Act.
The Company can create "tax paid undistributed surplus on hand" by paying a 15% tax on a portion of its "1971 undistributed income on hand". To compensate for this tax, such dividends will be 15% less in amount than the equivalent Class A dividends. Canadian shareholders will not be required to include such dividends in their taxable income. A corresponding decrease in the cost base will increase capital gains on disposal of the shares.

(b) The Deeds of Trust and Mortgage relating to the Series A, Series B and Series C Debentures contain certain restrictions, customarily found in Deeds of this type, pertaining to the amount of long term debt which may be issued, the declaration or payments of dividends and the reduction of capital. At June 30, 1976 the amount of shareholders' equity not restricted under the terms of the Trust Deeds was $44,774,000.

(c) 1,328,760 of the authorized Class A and Class B shares are reserved for the possible conversion of convertible debentures at any time up to October 11, 1982.

Note 11 — Other expenses and (income)

	1976	1975
	(in thousands of dollars)	
Translation losses on foreign exchange	**$ 2,743**	$ —
Income from marketable securities and other investments	**(253)**	(338)
Profit on sale of fixed assets and marketable securities	**(330)**	(50)
Royalties, commissions and other income	**(708)**	—
	$ 1,452	$ (388)

Note 12 — Statutory information

Remuneration of Directors and Officers

	1976		1975	
		(in thousands of dollars)		*(in thousands of dollars)*
	Number	**Amount**	Number	Amount
As Directors of the Company	**11**	**$ 65**	13	$ 66
As Officers of the Company	**23**	**1,623**	25	1,203
Officers who are also Directors	**3**		4	

Note 13 — Earnings per share

If the 5¾% Convertible Debentures had been converted on July 1, 1975, the earnings per share would have been $1.10 for the year ended June 30, 1976.

Note 14 — Balance sheet excluding DHJ Industries Inc.

	1976	1975
	(in thousands of dollars)	
Current assets		
Accounts receivable	**$ 53,143**	$ 50,745
Inventories	**105,250**	[illegible]
Other current assets	**2,934**	[illegible]
	161,327	[illegible]
Current liabilities		
Short term borrowings	**43,555**	[illegible]
Other current liabilities	**33,261**	20,533
	76,816	75,589
Working capital	**84,511**	77,901
Investments and advances	**19,515**	16,329
Land, buildings and equipment	**87,871**	85,447
Other assets	**341**	373
Funds invested	**$192,238**	$180,050
Financed by:		
Long term debt	**$ 67,308**	$ 63,909
Deferred income taxes	**8,049**	5,578
Minority interest	**38**	38
Shareholders' equity	**116,843**	110,525
	$192,238	$180,050

Note 15 — Canadian anti-inflation legislation

The Company and its Canadian subsidiaries are subject to the anti-inflation legislation which became effective as from October 14, 1975 and limits increases in sales prices, remuneration, net earnings and dividends. It is the Company's opinion that the legislation has been adhered to since the effective date and further, that based on preliminary compliance tests, it has no material liability under the provisions of the Act.

Financial Review

Sales

Consolidated sales were $475.4 million in the year ended June 30, 1976, compared with $273.4 million in the preceding year. The increase was principally attributable to the additional sales of $161 million brought in by consolidating the results of DHJ Industries. Excluding DHJ, sales would have shown an increase of 15% over the preceding year.

Sales by major product group
(Millions of dollars)

	1976	1975
Apparel fabrics *Woven, non-woven and knitted fabrics for the apparel trade*	**$278.8**	$101.4
Consumer products *Products for the home including sheets, pillow slips, towels, draperies, bedspreads and blankets*	**97.4**	83.7
Yarn *Cotton, man-made and blended yarn for knitters and weavers*	**55.4**	44.8
Industrial fabrics *Fabrics for use by other manufacturing industries*	**43.8**	43.5
	$475.4	$273.4

The composition of the sales, by each of the Company's four principal product groups, shifted appreciably since DHJ's sales fall entirely into the apparel fabrics family. The percentage of consolidated sales now represented by apparel fabrics has increased from 37% last year to 59%.

Earnings

Net income for the year amounted to $9,598,000, or $1.23 per share, compared with $7,118,000 and $0.91 per share the preceding year. While this was a distinct improvement, earnings in fiscal 1976 represented a return on average shareholders' equity of only 8.5%. On a fully-diluted basis, that is, if the 5¾% Convertible Debentures had been converted, earnings per share would have been $1.10 compared with $0.83 a year ago.

The percentage relationships usually derived from the income statement, such as net income as a percentage of sales, cannot be compared realistically with those for the preceding year because DHJ is included in the consolidated results of fiscal 1976 only. Next year, of course, the validity of such comparisons will be restored.

A few of the other differences that appear on the consolidated income statement due to DHJ deserve comment. This statement has been rearranged to take these new features into account.

When the Canadian dollar changes its value relative to other currencies, unrealized foreign exchange translation gains or losses will affect consolidated results much more significantly than in the past. Details of the adjustment, which this year is a reduction in earnings, are shown in Note 11 to the financial statements.

There is a minority shareholder in DHJ's subsidiary company, Swift Textiles, Inc., and the share of consolidated earnings attributable to the minority interest is shown separately on the income statement.

DHJ has an interest of 50% or less in several foreign companies, an important source of revenue totalling $863,000 in fiscal 1976 which also has been shown separately. Lastly, DHJ derives a healthy income from royalties and commissions which is included as an item in Note 11 to the financial statements.

Consolidated earnings per share, by quarter, are shown in the following table:

	1976	1975
First quarter	**$0.07**	$0.17
Second quarter	**0.25**	0.32
Third quarter	**0.40**	0.24
Fourth quarter	**0.51**	0.18
	$1.23	$0.91

Working capital

Working capital remained virtually unchanged at $106.1 million and there was little change in the ratio of current assets to current liabilities, which stood at 1.89 to 1.00 at June 30, 1976.

Short term borrowings were reduced by $22.3 million to $56.1 million, mainly due to a decrease in accounts receivable of $5.0 million and an increase in accounts payable and accrued liabilities of $11.4 million. Inventory in units declined, while the dollar value remained almost unchanged.

Investment in DHJ Industries Inc.

The Company acquired control of DHJ Industries late in fiscal 1975 and the balance of its shares early in fiscal 1976. Since then we have had the opportunity of assessing, more comprehensively, the underlying value of DHJ's assets. We have concluded that some of the values should be restated and we are giving effect to these restated values in the June 30, 1975 balance sheet.

A provision of $4.0 million has been established and included in accrued liabilities, and fixed assets have been adjusted upward by $7.8 million. Last year's balance sheet in the annual report showed an excess of $3.8 million paid for DHJ's assets. This item is eliminated by these adjustments.

The provision applies mainly to DHJ's knit business and is intended to cover certain excess costs as described in Note 4 to the financial statements. As these costs are incurred, it is the Company's intention to apply them to this provision. The amount so applied in the year ended June 30, 1976, was $800,000 net of income taxes.

DHJ also has an unrealized future tax benefit to which no value has been attributed in the consolidated accounts. As the tax benefit is realized we intend to apply it to offset the adjustment in fixed asset values referred to above. The tax benefit realized for the year and applied to the fixed asset values, amounted to $670,000 and the balance of the unrealized tax benefit at June 30, 1976 was $7.5 million.

Fixed assets

The Company spent $18.7 million on capital expenditures during the year and charged depreciation of $14.2 million to its accounts. Major capital expenditure projects are mentioned in the operating reports.

Long term debt

The Company purchased $925,000 of its 5⅝% Series A Debentures and $375,000 of its 6¾% Series B Debentures and has now accumulated $2,483,000 and $1,073,000 of the Series A and B Debentures respectively in anticipation of future sinking fund requirements.

With reference to DHJ's long term debt, the amount payable to its trade creditors was reduced from $12.5 million to $6.7 million during the year.

Under the creditors' agreement, two-thirds of DHJ's rental payments on its equipment leases is deferred. This deferral, of $1.5 million in fiscal 1976, has been added to long term debt.

Shareholders' equity

Shareholders' equity in the Company increased by nearly $5.0 million, mostly from retained earnings. During the year $112,000 of the 5¾% Convertible Debentures were presented for conversion to 10,080 convertible shares, bringing the total shares issued and outstanding to 7,808,562.

At $115.5 million at year-end, the equity of the shareholders represented a net book value of $14.75 per convertible share compared to $14.13 last year.

During the two-year period ended June 30, 1976, the market values of the Company's convertible or common shares, traded on the Montreal and Toronto stock exchanges, ranged as follows:

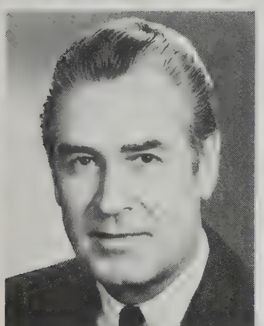
	1975-76		1974-75	
	High	**Low**	High	Low
July — September	**$9¼**	**$8¼**	$11	$7¾
October — December	**9¼**	**7½**	8¾	6
January — March	**9¾**	**8⅜**	7⅝	6½
April — June	**10**	**8⅛**	8⅝	7¼

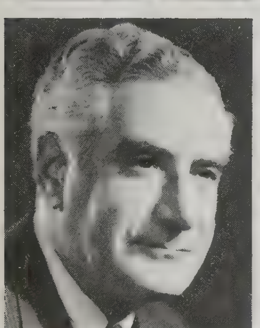
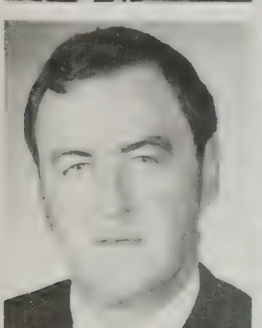
Dividends remained unchanged at $0.60 per annum per convertible share, and the Company now has paid a dividend on its convertible or common shares every year since 1907.

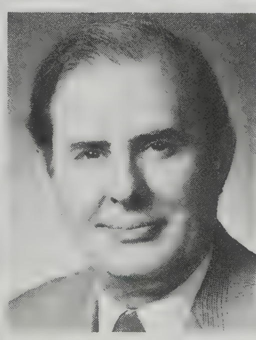
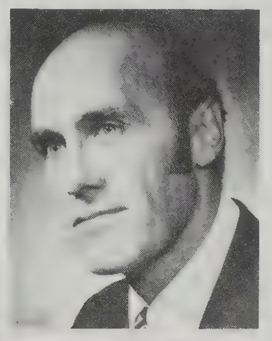
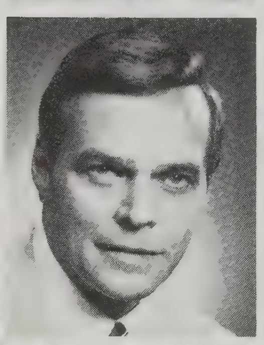
Ten-year Review

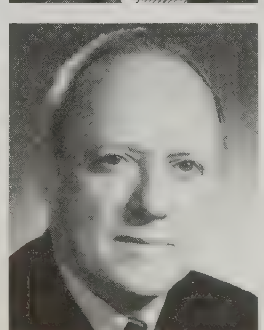
Results for the year (in millions of dollars)	**1976**	1975	1974	1973	1972	1971	1970	1969	1968	1967
Sales	**$475.4**	$273.4	$336.2	$257.3	$228.0	$191.4	$167.8	$173.3	$172.2	$129.6
Income (loss) before income taxes	**19.6**	12.3	33.1	15.8	14.2	8.0	4.8	3.3	(1.7)	(10.5)
Income taxes (credit)	**8.8**	5.2	14.3	7.0	7.0	3.7	1.5	(1.8)	(6.2)	(7.0)
Net income (loss) before minority interest and extraordinary item	**10.8**	7.1	18.8	8.8	7.2	4.3	3.3	5.1	4.5	(3.5)
Minority interest	**1.2**	–	–	–	–	–	–	–	–	–
Tax credit resulting from loss carry-forward	**–**	–	–	–	–	.9	1.3	–	–	–
Net income (loss) for the year	**9.6**	7.1	18.8	8.8	7.2	5.2	4.6	5.1	4.5	(3.5)
Interest on long term debt	**6.0**	3.2	3.0	3.0	2.4	2.7	2.9	3.1	3.2	2.0
Cash generated from operations	**25.8**	21.9	34.8	24.6	22.2	16.4	14.4	12.8	7.6	3.2
Additions to fixed assets	**18.7**	21.7	17.8	24.7	11.7	6.7	4.8	2.8	3.3	19.3
Depreciation	**14.2**	12.1	12.3	11.0	10.6	10.0	9.6	9.6	9.5	9.3
Year-end Position (in millions of dollars)										
Working capital	**106.1**	105.6	84.1	67.6	54.7	52.3	48.5	47.4	45.2	43.4
Land, buildings and equipment — at cost	**304.7**	294.5	246.3	230.3	201.8	186.0	181.0	177.0	178.2	180.8
Long term debt	**104.4**	109.7	54.8	53.7	38.8	40.0	43.3	45.4	49.5	52.0
Shareholders' equity	**115.5**	110.5	108.3	93.6	88.3	85.8	84.2	81.6	78.2	75.7
Statistics per convertible share (in dollars)										
Net income (loss)	**1.23**	.91	2.40	1.12	.92	.66	.59	.64	.56	(.47)
Cash generation	**3.30**	2.81	4.46	3.15	2.84	2.10	1.84	1.63	.96	.40
Dividends	**.60**	.60	.50	.37	.30	.27	.20	.20	.27	.33
Book value	**14.75**	14.13	13.82	11.92	11.24	10.91	10.70	10.31	9.87	9.55
Other statistics										
Working capital ratio	**1.89**	1.85	2.07	1.89	1.85	2.03	2.04	2.03	1.90	1.71
Net income (loss) as a percentage of sales	**2.0**	2.6	5.6	3.4	3.2	2.7	2.8	2.9	2.6	(2.7)
Net income (loss) as a percentage of average shareholders' equity for the year	**8.5**	6.5	18.6	9.6	8.3	6.1	5.6	6.4	5.8	(4.5)
Number of shareholders	**6,002**	6,264	6,218	6,371	5,757	6,602	6,947	7,128	7,098	6,766

Directors



Jean Béliveau, Montréal
Vice-President
Club de Hockey Canadien, Inc.

* Thomas R. Bell, Montréal
President and Chief Operating Officer
Dominion Textile Limited

* J. Claude Hébert, Montréal
Chairman of the Board and Chief Executive Officer
Bombardier-MLW Ltd.

Roderick O. A. Hunter, Winnipeg, Manitoba
Vice-President
James Richardson & Sons, Limited

Charles A. McCrae, New York, New York
President and Chief Operating Officer
DHJ Industries Inc.

* D. Ross McMaster, Q.C., Montréal
Partner
McMaster, Minnion, Patch, Hyndman, Legge, Camp & Paterson

Cal. N. Moisan, Montréal
President and General Manager
Standard Paper Box Ltd.

Arthur Pascal, CM, Montréal
Executive Vice-President
The J. Pascal Hardware Co. Limited

* Ronald H. Perowne, Montréal
Chairman of the Board and Chief Executive Officer
Dominion Textile Limited

David F. Sobey, Stellarton, Nova Scotia
President
Sobeys Stores Limited

Kenneth A. White, C.D., Montréal
President and Chief Executive Officer
The Royal Trust Company

* Member of the Executive Committee

Officers

Ronald H. Perowne
Chairman of the Board and Chief Executive Officer

Thomas R. Bell
President and Chief Operating Officer

Arthur P. Earle
Group Vice-President — Subsidiaries

Robert M. Wilson
Vice-President, General Manager — Yarn and Industrial Division

William A. McVey
Vice-President, General Manager — Apparel and Consumer Products Division

Francis P. Brady, Q.C.
Vice-President, General Counsel

Harry Braid
Vice-President — Marketing, Consumer Products and Fabrics

Hubert Chatelois
Vice-President — Manufacturing, Yarn and Industrial Division

Allan R. Evans
Vice-President — Marketing, Yarn and Industrial Division

Ilay C. Ferrier
Vice-President — Finance

William N. Gagnon
Vice-President — Administration

W. Hood Gambrell
Vice-President — Finishing Plants

George H. Hughes
Vice-President — Non-Wovens

Robert W. Kolb
Vice-President — Development Research

Alex R. McAslan
Vice-President — Operation Services

Lawrence G. McDonough
Vice-President — Manufacturing, Apparel/Consumer Division

Lester J. Smith
Vice-President — Fibre Procurement

William D. Whittaker
Vice-President — Marketing, Apparel Fabrics

Clifton M. Beck
Secretary

Stephen J. Weir
Treasurer

Richard B. Grogan
Comptroller

Laurie W. Alnwick
Assistant Treasurer

Plants and Subsidiary Companies

APPAREL AND CONSUMER PRODUCTS DIVISION

Greige fabric plants

Caldwell, Iroquois, Ontario
Roland Johnson, Manager
Terry towels, towelling and bath mats

Domil, Sherbrooke, Québec
Gordon McD. Shaw, Manager
Fabrics for men's and women's sportswear, rainwear and outerwear; shirtings; filament mattress ticking

Gault, Valleyfield, Québec
Gordon Largy, Manager
Cotton and polyester/cotton drills, twills and drapery fabrics

Long Sault, Long Sault, Ontario
Bernard Hamel, Manager
Polyester/cotton broadcloths, outerwear and sportswear fabrics

Magog, Magog, Québec
Roger Bouchard, Manager
Cotton broadcloths; cotton and polyester/cotton print cloth and broadcloths; industrial fabrics

Richelieu, St.Jean, Québec
Marc Théberge, Manager
Cotton and polyester/cotton broadcloths, twills, casement sateens, poplins and pocketings

Sherbrooke, Sherbrooke, Québec
Raymond Bégin, Manager
Cotton and polyester/cotton sheeting for sheets, pillow slips and chenille; industrial fabrics

Converting and finishing plants

Magog Print Works, Magog, Québec
Robert L. Cooney, Manager
"A" Division: bleaching, dyeing, printing and finishing; cotton, blend fabrics and corduroys
Consumer Division: sheets, pillow slips, towels and blankets

Beauharnois Finishing, St.Timothée, Québec
A. Richard Tremaine, Manager
Bleaching, dyeing and finishing; cotton and blend fabrics

YARN AND INDUSTRIAL DIVISION

Sales yarn plants

Combed and carded; cotton, man-made and wool; natural, bleached and dyed

Domil, Sherbrooke, Québec
Raymond Nicol, Manager

Long Sault, Long Sault, Ontario
Gaston Morneau, Manager

St. Anns, Montréal, Québec
Camille Beaulieu, Manager

Salaberry, Valleyfield, Québec
Jos. E. Huot, Manager

Tremont, Montréal, Québec
Paul E. Boudreault, Divisional Manufacturing Manager

Mount Royal Dyehouse, Montréal, Québec
Alphonse G. Kelada, Manager

- **Manufacturing facilities**
- **Sales and distribution**
- **Subsidiaries and Affiliates (By country)**

Greige fabric plants

Drummondville, Drummondville, Québec
Oscar J. Paquette, Manager
Fabrics of cotton and man-made fibres or filaments for automotive, abrasive, buff and filter use; tire cord and chafer fabrics; ducks for tarpaulins, conveyor belting and industrial hose; industrial yarn and V-belt cords

Montmorency, Montmorency, Québec
Reynald Leduc, Manager
Cotton sales yarn and twines; cotton and blend flannelette blankets; towelling; industrial greige cloth

Yarmouth, Yarmouth, Nova Scotia
André Trachy, Manager
Ducks of cotton, man-made fibres or filaments for tarpaulins, conveyor belting and industrial hose; cotton and blend industrial greige fabrics; sales yarn

SALES AND SERVICE

Dominion Textile Company (U.K.) Limited, London, England
Barry J. Robinson, Director
Company's selling agent for United Kingdom and Europe

Howard Cotton Company, Memphis, Tennessee
Herman F. Riddle, President
Supplies raw cotton to the Company, its subsidiaries and to a major international cotton merchant

Textile Management Services Inc., Montréal, Québec
Robert E. Jones, Director of Industrial Engineering
Provides industrial engineering and in-process quality control services as well as undertaking general management consulting assignments for the Company and its subsidiaries

SUBSIDIARIES

DHJ Industries Inc., New York, New York

Thomas R. Bell, Chairman of the Board and Chief Executive Officer
Charles A. McCrae, President and Chief Operating Officer
Bert Schwarz, Executive Vice-President, Interlining Division
David Friedlander, Executive Vice-President, Knit Goods Division
Norman H. Block, Vice-President — Administration and Comptroller
Harry Krieger, Vice-President, Cut Linings
Robert A. Lankenau, Vice-President and Treasurer
Charles T. Marth, Jr., Vice-President, International Division
Jon R. Running, Secretary
Maurice Ojalvo, Corporate Controller
Neil Felsen, Assistant Treasurer

Interlinings and interfacings, fusibles; plastic moulding; disposable hospital garments

Plants: Collierville, Tennessee; East Setauket, L.I., New York; Greenville, South Carolina; Ho-Ho-Kus, New Jersey; Monroe, Louisiana; Plymouth, Massachusetts; Quanah, Texas

DHJ Knitting and Finishing Co. Inc., Hickory, North Carolina
David Friedlander, Vice-President and General Manager
Double knit fabrics

Swift Textiles, Inc., Columbus, Georgia
John A. Boland, Jr., President
Indigo-dyed denim

DHJ Canadian Ltd., Montréal, Québec
Albert E. Wilcox, Vice-President and General Manager
Interlining fabrics

DHJ Industries Deutschland GmbH, Bielefeld, West Germany
Dr. Ferdinand Langenkamp, Managing Director
Interlining fabrics and die-cut linings

DHJ Industries Europe S.A., Paris, France
William N. Gagnon, President and Director General
Interlining fabrics

Dubin-Haskell-Jacobson Distribution SPA, Milan, Italy
Ercole Morino, Managing Director
Interlining fabrics and die-cut linings

Dubin-Haskell-Jacobson de Argentina, S.A.C.I., Buenos Aires, Argentina
O. Rafael Soler, President and Managing Director
Interlining fabrics and die-cut linings

Affiliates: Austria, Botswana, Brazil, Chile, Colombia, Hong Kong, Japan, Mexico, Portugal, Singapore, South Africa, Spain, United Kingdom, Venezuela

Domil Industries Ltd., Montréal, Québec

Arthur P. Earle, President
George H. Hughes, Vice-President

Esmond Division, Granby, Québec
Frank H. Boone, Vice-President and General Manager
Blankets, bedspreads and draperies

Fiberworld Division, Hawkesbury, Ontario
Joseph M. Vesely, Vice-President and General Manager
Polypropylene carpet backing; polyolefin industrial fabrics

Hubbard Dyers Division, Montréal, Québec
Ian Roulston, General Manager
Commission dyeing, finishing and transfer printing

Penmans Division, Brantford and Paris, Ontario; St. Hyacinthe, Québec
Robert E. Evans, President
Men's, ladies' and children's knit sportswear and underwear; industrial knits

Jaro Manufacturing Company Limited, Woodstock, Ontario

Harold Hargreaves, Vice-President
Non-woven fabrics of man-made fibres

dominion textile limited

and subsidiaries

interim report

6 months ended December 1976

Consolidated earnings for the three months ended December 1976 were 34 cents per share, or 9 cents per share better than last year.

The overall improvement was attributable to the elimination of the loss incurred in the second quarter last year by DHJ Industries and to foreign exchange translation gains resulting from the decline in value of the Canadian dollar. Canadian operations showed a slight decline in profit compared with the same quarter a year ago.

Consolidated sales of $120.2 million for the quarter represented a 3% decrease from the same period a year ago. This year's figures, however, reflect lower sales from the drastically reduced doubleknit operations.

For the six months ended December 1976 and 1975 earnings per share were 57 cents and 32 cents respectively. Sales of $234.3 million were 3% ahead of last year.

Markets for apparel fabrics were depressed in Canada in the second quarter; similar conditions in the U.S.A. affected DHJ's interlining business, although denim sales showed continued strength. A weak market in the U.S. for sheets and pillow slips contributed to a very high level of imports of these products into Canada and led to a sharp decline in new orders.

The business outlook for the next six months remains unstable and the Company is operating at less than capacity in nearly all of its plants. On the plus side, the Canadian government's recently-announced restrictions on the massive importation of foreign-made garments should have a beneficial effect on new orders as we progress through the second half of this fiscal year.

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R. H. Perowne
Chairman of the Board

Montréal, January 27, 1977.

CONSOLIDATED STATEMENT OF INCOME
Unaudited

	THOUSANDS			
	Three months December 1976	Three months December 1975	Six months December 1976	Six months December 1975
Sales	$120,158	$124,167	$234,317	$227,882
Costs and expenses				
Operating costs	109,427	112,686	213,718	207,656
Depreciation	3,338	3,570	6,791	7,183
Interest				
Long term debt	1,500	1,517	3,014	3,287
Other	1,926	2,277	3,793	4,128
	116,191	120,050	227,316	222,254
	3,967	4,117	7,001	5,628
Share in earnings of associated companies	395	130	698	130
Income from operations	4,362	4,247	7,699	5,758
Other income (expense)	542	(189)	795	(328)
Income before income taxes	4,904	4,058	8,494	5,430
Income taxes	1,925	1,842	3,460	2,484
Income before minority interest	2,979	2,216	5,034	2,946
Minority interest	321	253	578	440
Net income for the period	$ 2,658	$ 1,963	$ 4,456	$ 2,506
Per share, after preferred dividends	$ 0.34	$ 0.25	$ 0.57	$ 0.32

If the 5 3/4% convertible debentures had been converted on July 1, 1976, the earnings per share would have been $0.51 for the six months ended December 1976.

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CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Unaudited

	THOUSANDS	
	Six months December 1976	Six months December 1975
Source of funds		
Net income for the period	$ 4,456	$ 2,506
Depreciation	6,791	7,183
Deferred income taxes	1,271	1,524
Cash generated from operations	12,518	11,213
Increase in long term debt	6,744	4,558
Minority interests' share of earnings in subsidiaries	578	440
Proceeds on sale of fixed assets	700	690
Realization of tax benefit	303	—
	$20,843	$16,901
Use of funds		
Repayment of long term debt	$ 5,541	$ 5,669
Additions to fixed assets	8,044	8,519
Increase in marketable securities and advances	160	312
Investment in subsidiary and associated companies	459	529
Dividends	2,355	2,352
Other items — net	399	5
	$16,958	$17,386
Increase (decrease) in working capital	$ 3,885	$ (485)

On behalf of the Board: R. H. PEROWNE, Director T. R. BELL, Director

ÉTAT CONSOLIDÉ DES REVENUS ET DÉPENSES

Non vérifié

	EN MILLIERS			
	Trois mois décembre 1976	Trois mois décembre 1975	Six mois décembre 1976	Six mois décembre 1975
Ventes	$120,158	$124,167	$234,317	$227,882
Coûts et dépenses				
Charges d'exploitation	109,427	112,686	213,718	207,656
Amortissement	3,338	3,570	6,791	7,183
Intérêts				
Dette à long terme	1,500	1,517	3,014	3,287
Autres	1,926	2,277	3,793	4,128
	116,191	120,050	227,316	222,254
	3,967	4,117	7,001	5,628
Quote-part des bénéfices des compagnies associées	395	130	698	130
Bénéfice d'exploitation	4,362	4,247	7,699	5,758
Autres revenus (dépenses)	542	(189)	795	(328)
Bénéfice avant impôts sur le revenu	4,904	4,058	8,494	5,430
Impôts sur le revenu	1,925	1,842	3,460	2,484
Bénéfice avant part des actionnaires minoritaires	2,979	2,216	5,034	2,946
Part des actionnaires minoritaires	321	253	578	440
Bénéfice net de l'exercice	$ 2,658	$ 1,963	$ 4,456	$ 2,506
Par action, après dividendes sur les actions privilégiées	$ 0.34	$ 0.25	$ 0.57	$ 0.32

Si les obligations convertibles à 5 3/4% avaient été converties en date du 1er juillet 1976, le bénéfice par action aurait été de $0.51 pour l'exercice terminé en décembre 1976.

ÉTAT CONSOLIDÉ DE L'ÉVOLUTION DE LA SITUATION FINANCIÈRE

Non vérifié

	EN MILLIERS	
	Six mois décembre 1976	Six mois décembre 1975
Provenance des fonds		
Bénéfice net de l'exercice	$ 4,456	$ 2,506
Amortissement	6,791	7,183
Impôts sur le revenu reportés	1,271	1,524
Encaisse générée par l'exploitation	12,518	11,213
Augmentation de la dette à long terme	6,744	4,558
Quote-part des bénéfices des filiales revenant aux actionnaires minoritaires	578	440
Produit de la vente d'immobilisations	700	690
Réalisation d'un avantage fiscal	303	—
	$20,843	$16,901
Utilisation des fonds		
Remboursement sur la dette à long terme	$ 5,541	$ 5,669
Nouvelles immobilisations	8,044	8,519
Augmentation des titres négociables et avances	160	312
Participation dans une filiale et des compagnies associées	459	529
Dividendes	2,355	2,352
Autres — net	399	5
	$16,958	$17,386
Augmentation (diminution) du fonds de roulement	$ 3,885	$ (485)

Pour le conseil d'administration: R. H. PEROWNE, administrateur T. R. BELL, administrateur

dominion textile limitée

et ses filiales

rapport intérimaire

6 mois terminés
en décembre 1976

Les bénéfices consolidés du trimestre terminé en décembre 1976 ont atteint 34 cents par action, soit une amélioration de 9 cents comparativement à l'an dernier.

L'amélioration globale est attribuable à l'élimination de pertes encourues l'an dernier par DHJ Industries au cours du second trimestre et à des gains sur la conversion de devises étrangères à la suite de la dévaluation du dollar canadien. Les activités canadiennes de la compagnie ont fait preuve d'un léger déclin au niveau des profits par rapport au même trimestre l'an dernier.

Les ventes consolidées de $120.2 millions au cours du trimestre ont représenté une diminution de 3 pour cent comparativement à la même période l'an dernier. Cependant, les résultats de cette année reflètent la baisse des ventes de nos activités fort réduites de tricot double.

Pour les premiers semestres de 1976 et 1975, les bénéfices par action ont été de 57 cents et 32 cents respectivement. Les ventes ont atteint $234.3 millions, soit une augmentation de 3 pour cent sur l'an dernier.

Le marché des tissus pour vêtements s'est affaissé au Canada au cours du second trimestre et des conditions similaires aux États-Unis ont affecté les ventes de doublures chez DHJ, même si celles des denims ont continué d'être fort élevées. La faiblesse du marché américain des draps et taies d'oreiller a contribué à relever de beaucoup le niveau des importations de ces mêmes produits au Canada et a produit une baisse sérieuse de nos nouvelles commandes.

Quant à l'avenir des six prochains mois, il demeure instable et presque toutes les usines de la compagnie fonctionnent sous leur capacité normale de production. Sur le plan positif, la récente annonce du gouvernement canadien concernant les restrictions d'importations massives de vêtements étrangers devrait produire des effets bénéfiques sur nos commandes à venir à mesure que le deuxième semestre de cet exercice financier se déroulera.

Le président du Conseil,
R. H. Perowne

Montréal, le 27 janvier 1977.